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SUBJECT: EMBASSY'S INVESTMENT CONFERENCE HIGHLIGHTS
MOROCCAN POTENTIAL

Sensitive but unclassified -- protect accordingly

11. (U) Summary. In support of implementation of our bilateral free trade agreement with Morocco, Mission Morocco recently hosted an investment conference for potential foreign investors in the automotive parts sector, a key priority of Moroccan industrial policy. The event highlighted success stories of existing American, European and Asian investors, and included visits to several manufacturing facilities. The GOM participated in the event, and used the occasion to launch its new targeted program for the auto parts sector under its overall "Plan Emergence." Approximately 50 people attended the event and already two companies have expressed strong interest in investing in Morocco in the near future. End summary.

12. (U) On March 26-27, an Embassy/USAID conference (financed with MEPI funding) hosted potential foreign investors from the auto parts sector in Casablanca and Tangier. Representatives from American and European companies were briefed by experts in both the public and private sector. Since 1996, Morocco's automotive sector has experienced average growth rates of 26.4 percent in investment, 22 percent in export growth and 9.3 percent in overall growth. The 120 companies in the sector account for \$1.1 billion in exports, representing 17 percent of total Moroccan exports. Auto parts manufacturers in Morocco predominately supply automotive assembly operations in southern Europe. Proximity and low labor costs are the two main features that make Moroccan produced automotive parts attractive to European automotive assemblers. Delivery times for Moroccan products are one to three days to Southern Europe and five days for other parts of the continent, while wage rates in Morocco are a fraction of those in the European Union.

PUBLIC-PRIVATE PARTNERSHIP

13. (U) On the first day of the conference, Ambassador Riley welcomed the participants and provided an overview of the benefits that the FTA brings to Morocco-based manufacturers. The Ministry of Industry's (MOI) Secretary General Bouselham Hilia discussed the GOM's Emergence Plan, which seeks to promote investment in seven key sectors identified through a McKinsey Associates study: automotive, electronics, aviation, tourism, textiles, agriculture and cinematography. The MOI's Deputy Director of Industrial Production Ouatiqua Elkalfi outlined the GOM's new plan to focus on the automotive sector, rated by the GOM as the second most important sector after textiles. Measures include financial incentives such as paying up to 20 percent of land acquisition and training

costs (up to five percent of total costs). In addition, the GOM has established free trade zones that offer first rate facilities and infrastructure, simplified customs regulations, efficient management and tax incentives (corporate income is tax free for the first five years and only 8.75 percent for the next 20 years). In addition, the GOM is constructing the world class Tangier Med Port to facilitate vastly increased sea freight from Morocco as well as to act as a major transshipment facility for the Mediterranean region (the Strait of Gibraltar is one of the busiest freight areas in the world).

14. (U) The rest of the conference had a predominately private sector focus with current investors in the Moroccan automotive sector sharing their business experiences with the visiting potential investors. Representatives from six companies discussed their investment stories, including one who gave a tour of his company's manufacturing facilities in Casablanca. The second day of the conference shifted to Tangier where participants visited the Tangier Free Zone (TFZ) and toured four manufacturing plants. Finally, representatives from the TFZ and Tangier Med Port discussed the plans for their facilities and how they would help manufacturers in Morocco to produce and export their products efficiently. The investment conference was widely covered by Moroccan TV and press, and interviews with Ambassador Riley featured prominently in the news.

CURRENT INVESTORS' EXPERIENCES

15. (U) Larbi Belarbi, the president of Morocco's only automotive assembly company, Somaca, (and the president of the Moroccan Association of Automotive Industry and Trade)

shared the story of his company's evolution and recent growth. The formerly state-owned company had produced cars for Renault, Peugeot and Fiat before nearly being put out of business by an influx of imported second-hand cars into Morocco. In 2003, Renault bought Somaca and proceeded to cut operating costs by 40 percent. In 2005, Somaca launched a project to assemble the economy car "Logan" in Morocco. After producing 20,000 Logans in 2005 for the domestic market, Somaca built 30,000 cars in 2006 and made its first foray into exporting cars to Spain and France. In 2007, the company will raise production to 40,000 cars and seek to expand exports further. Belarbi led the conference participants on a tour of Somaca's production facilities that helped demonstrate the quality of Moroccan workmanship.

16. (U) Representatives from seven foreign auto parts manufacturers with operations in Morocco also spoke at the conference or gave tours of their facilities in the TFZ. All seven stressed Morocco's advantages, including low wage rates, a large available pool of labor and close proximity to Europe. One company reported that total monthly costs for a typical machine operator, including benefits, cost only \$400 in Morocco compared to \$567 in Romania and \$1,067 in Lithuania. Clearly, Morocco's minimum wage rate of \$1.15 per hour helped make it an advantageous destination for investment. In addition, several current investors noted that they were pleased with the quality of the Moroccan labor force, its strong work ethic -- absenteeism is very low, and its ability to successfully operate with a minimum of expat managers. Most of the companies participating in the investment conference had experienced rapid growth in their Moroccan operations, with their staffs doubling or tripling in the first two to three years of operations.

FREE ZONES AND NEW PORT

17. (U) Both business participants and Free Zone officials themselves stressed that the TFZ offers a well managed, modern facility with good infrastructure and excellent port connections. Several also praised the GOM for its timely

assistance in securing investment incentives that helped them get off to a quick start. Hicham El Aloui, an executive with the Tangier Med Port, which owns the TFZ, added that other free zones were being built in Tangier and there was abundant space for more investors. Also, because the TFZ had proven to be so popular with auto parts manufacturers, a "Tangier Auto City" dedicated solely to the sector may be opened in the future. El Aloui also presented plans for the new Tangier Med Port, which will be much larger than the existing port and will act as a major transshipment facility. The new port will have increased storage facilities and modern infrastructure. El Aloui suggested that the new port should cut logistics costs by 30 to 40 percent for companies working in the TFZ.

COMMENT

18. (SBU) The GOM has identified the auto sector as an area with high potential for the country, and the conference (part of our effort to advance the bilateral economic relationship under the FTA) contributed to its own promotion activities. We share, and sought to convey to investors, the view that good opportunities exist for investors who do their homework and select appropriate niches. At the same time, some constraints remain to full realization of the "Emergence" vision. These include notably a shortage of professionals in engineering, design, and research and development. Nonetheless, recent success stories and the interest of at least two companies who attended the conference show that this remains a sector with promise for Morocco. End Comment.

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